

**SOLITUDE IMPROVEMENT DISTRICT**

**Financial Statements**

**December 31, 2006 and 2005**

**(With Independent Auditors' Report Thereon)**

**SOLITUDE IMPROVEMENT DISTRICT  
SPECIAL SERVICE DISTRICT  
DECEMBER 31, 2006**

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**To The Board of Trustees  
Solitude Improvement District, A Special Service District**

**Independent Auditors' Report**

We have audited the accompanying basic financial statements of Solitude Improvement District, a Special Service District (the District), as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Solitude Improvement District, a Special Service District as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Schmidt, Guffey, Smith, C.P.C.*

January 22, 2007



## **Management's Discussion and Analysis**

**Solitude Improvement District  
Special Service District  
Management's Discussion and Analysis  
December 31, 2006**

This section of the Solitude Improvement District, a Special Service District (the District) report presents management's discussion and analysis of the District's financial performance during the year ended December 31, 2006. Please read it in conjunction with the District's basic financial statements, which follows this section.

**FINANCIAL HIGHLIGHTS**

As Management of the Solitude Improvement District, Big Cottonwood Canyon, Salt Lake County, Utah, (District) we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2006. The District prepares its financial statements on the accrual basis of accounting. Revenues are recognized as earned and expenditures are recorded when incurred. The District receives funds from four principal sources, monthly user fees, connection fees, dump station fees and interest income. Bonds issued by the District require certain amounts be maintained to comply with bond terms. These restricted cash accounts are maintained as separate accounts at the Utah State Treasurer's office in PTIF accounts. (Public Treasurer Investment Funds) The State Treasurer invests these PTIF funds in U.S. Government securities and investment grade Corporate bonds to produce a portion of the interest income received by the District.

- Total Assets of the District decreased \$15,904 as of December 31, 2006, from the prior year, principally, due to depreciation. However, total assets would have decreased by \$76,904 if the District had not received a \$61,000 settlement from Salt Lake City Corp's Water Treatment Plant.
- Total revenue of the District increased \$68,845 or 13% over the prior year again a \$61,000 increase due to a settlement with Salt Lake City Corp.
- The District's debt obligations of \$2,104,171 as of December 31, 2005 were reduced by bond payments of \$295,380. The total debt obligation as of December 31, 2006 was \$1,883,016.

**OVERVIEW OF THE SOLITUDE IMPROVEMENT DISTRICT**

The Solitude Improvement District was created August 4, 1982 by Resolution No. 969 of the Salt Lake County Commission for the purpose of sewer, water and flood control, but initially, for the construction, operation and maintenance of a sewer system in Big Cottonwood Canyon. The District operates as an "Independent District" and not a component unit of any other governmental entity and the District has no subordinate component unit.

A three member Board of Trustees govern the District. They have staggered four year terms and are appointed by the Mayor of Salt Lake County with the advice and consent of the Salt Lake County Council.

**Solitude Improvement District  
Special Service District  
Management's Discussion and Analysis, Continued  
December 31, 2006**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The District's financial statements consist of two parts – management's discussion and analysis and the basic financial statements. The District summary financial statements reflect the effect of accounting transactions for the year and include notes to financial statements.

- The District financial statements provide information about the District's overall financial position and results from operations. These statements, which are presented on the accrual basis, consist of the Comparative Statements of Net Assets, the Comparative Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows.
- The financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the District statements.

The District statements report information using accounting methods similar to those used in private sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid.

The District's presentation, using comparative statements for the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets and Statements of Cash Flows is one way of measuring changes in the financial statements and to evaluate the District's overall financial position. This is much the same as done in the private sector.

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**Solitude Improvement District  
Special Service District  
Management's Discussion and Analysis, Continued  
December 31, 2006**

**OVERVIEW OF DISTRICT FINANCIAL POSITION**

The tables identified below summarize information presented in the financial statements:

**Solitude Special Service District's NET ASSETS**

	<u>2006</u>	<u>2005</u>
Total current assets	\$ 1,236,124	\$ 1,148,883
Capital assets	3,870,200	3,973,136
Other assets	1,761	1,970
Total Assets	<u>5,108,085</u>	<u>5,123,989</u>
Current liabilities	339,389	344,264
Long-term liabilities	<u>1,808,791</u>	<u>2,124,727</u>
Total liabilities	<u>2,148,180</u>	<u>2,468,991</u>
Net assets invested in capital assets, net of related debt	1,987,184	1,794,740
Net assets restricted for debt service and emergency repairs	420,000	715,380
Unrestricted net assets	<u>552,721</u>	<u>144,878</u>
Net assets	<u>\$ 2,959,905</u>	<u>\$ 2,654,998</u>

**Solitude Special Service District's CHANGE IN NET ASSETS**

Operating revenues	\$ 482,616	\$ 492,182
Operating expenses	<u>288,421</u>	<u>306,186</u>
Operating income	194,195	185,996
Nonoperating revenues	<u>110,712</u>	<u>32,302</u>
Change in net assets	304,907	218,298
Net assets, beginning of year	<u>2,654,998</u>	<u>2,436,700</u>
Net assets, end of year	<u>\$ 2,959,905</u>	<u>\$ 2,654,998</u>



**Solitude Improvement District  
Special Service District  
Management's Discussion and Analysis, Continued  
December 31, 2006**

**OVERVIEW OF DISTRICT FINANCIAL POSITION, Continued**

A portion of the District's net assets (14 percent at December 31, 2006) reflects its investment in assets restricted for debt service. These assets will be used over time to make debt service payments. The net assets representing investments in capital assets net of related debt consist of land and easements, sewer pipes, and equipment and fixtures less any related debt used to acquire those assets that are still outstanding.

**LONG TERM DEBT**

The District financed the construction of its capital improvements with (1) Sewer Revenue Bonds, Series 1990 in the original principal amount of \$2,993,000, bearing interest at 3% per annum and (2) Sewer Revenue Bonds, Series 1993 issued in the original amount of \$2,995,000, bearing interest at 0% per annum, each with escalating principal payments. These two original bonds totaled \$5,988,000. In 1995, the District, with bond holder consent, reissued these two bonds as (1) Sewer Revenue Refunding Bonds, Series 1995A, in the aggregate principal amount of \$2,649,000, bearing interest at 0% per annum and (2) Sewer Refunding Bonds, Series 1995B, in the aggregate principal amount of \$2,467,000, bearing interest at 0% per annum, each with level term principal payments. The 1995 Refunding Bonds totaled \$5,116,000. The total owing on both bonds as of December 31, 2006 is \$1,883,016. In addition, the District is in compliance with all bond terms and covenants.

**CAPITAL ASSETS**

The proceeds of the aforementioned bonds were used primarily to design and construct the sewer system and pump stations in Big Cottonwood Canyon. The sewer pipe is Hydropolyethylene, SDR 17 (HDPE) constructed in a ten (10") size from the mouth of the canyon to the Solitude Ski Resort and eight (8") size from the Solitude Ski Resort to the Brighton Circle. All subsequent collector lines in the various communities in the canyon are constructed with an eight (8") inch size. All lateral connections to homes are required to be four (4") inch HDPE SDR17 pipe. While the product life of the pipe is represented to be not less than seventy-five (75) years, the Internal Revenue Service depreciation schedule for sewer lines is fifty (50) years. The main sewer lines and collector systems were constructed between 1990 and 1995.

**Solitude Improvement District  
Special Service District  
Management's Discussion and Analysis, Continued  
December 31, 2006**

**MAINTENANCE OF CAPITAL ASSETS**

The District has a maintenance contract with the Cottonwood Improvement District who provides manpower, equipment and support for the maintenance of the sewer lines. Cottonwood utilizes a maintenance schedule for the District similar to the one utilized by themselves for their own district. Extraordinary maintenance is billed to the District which expenses such charges as incurred. The District also receives a periodic report of condition of sewer manholes which the District uses to hire a third party for such repairs necessitated by broken bolts, raising manholes to grade or damage caused by road maintenance equipment. These repairs are expensed when incurred. Additionally, the District has set aside \$140,000 in separated Emergency Repair Reserves for unexpected circumstances.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Districts' accountability for all those interested. If you have additional questions regarding financial information, you may contact our office in writing at the following address:

Solitude Improvement District  
P.O. Box 71350  
Salt Lake City, Utah 84171-0350



## **Financial Statements**

**Solitude Improvement District  
Special Service District  
Statements of Net Assets  
December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and invesments	\$ 806,244	\$ 421,379
Restricted cash and investments	420,000	715,380
Accounts receivable	9,880	12,124
Total current assets	1,236,124	1,148,883
Capital assets		
Depreciable assets, net	3,835,200	3,938,136
Land and water rights	35,000	35,000
Other assets, net	1,761	1,970
	<u>\$ 5,108,085</u>	<u>\$ 5,123,989</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 23,453	\$ 28,328
Current portion of deferred revenue	20,556	20,556
Current portion of long-term debt	295,380	295,380
Total current liabilities	339,389	344,264
Long term portion of deferred revenue	221,155	241,711
Long-term debt, net of current portion	1,587,636	1,883,016
Total liabilities	<u>2,148,180</u>	<u>2,468,991</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	1,987,184	1,794,740
Restricted for debt repayment and emergency repairs	420,000	715,380
Unrestricted	552,721	144,878
Net assets	<u>2,959,905</u>	<u>2,654,998</u>
	<u>\$ 5,108,085</u>	<u>\$ 5,123,989</u>

See accompanying notes and independent auditors' report.

**Solitude Improvement District  
Special Service District  
Statements of Revenues, Expenses  
and Changes in Net Assets  
Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Sewer connection fees	\$ -	\$ 14,641
Sewer operating and maintenance fees	179,169	177,130
Sewer debt service fees	300,747	295,936
Dump station fees	2,700	4,475
Total operating revenues	<u>482,616</u>	<u>492,182</u>
Operating expenses:		
Engineering and sewer processing	89,732	90,361
Operations, maintenance and repairs	68,064	83,982
Management and finance	15,665	15,942
Legal and professional services	7,373	8,702
Depreciation	107,587	107,199
Total operating expenses	<u>288,421</u>	<u>306,186</u>
Operating income	<u>194,195</u>	<u>185,996</u>
Non-operating revenues:		
Interest income	49,523	32,284
Other income	61,189	18
Total non-operating revenues	<u>110,712</u>	<u>32,302</u>
Change in net assets	<u>304,907</u>	<u>218,298</u>
Net assets, beginning of year	<u>2,654,998</u>	<u>2,436,700</u>
Net assets, end of year	<u>\$ 2,959,905</u>	<u>\$ 2,654,998</u>

**Solitude Improvement District  
Special Service District  
Statements of Cash Flows  
Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 484,860	\$ 499,448
Cash paid to employees and suppliers	<u>(185,500)</u>	<u>(180,595)</u>
Net cash from operating activities	<u>299,360</u>	<u>318,853</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchase of equipment	(4,651)	-
Deferred revenue	(20,556)	(20,555)
Debt payments	<u>(295,380)</u>	<u>(294,990)</u>
Net cash from capital and related financing activities	<u>(320,587)</u>	<u>(315,545)</u>
<b>Cash flows from investing activities:</b>		
Interest received	49,523	32,302
Refund received	<u>61,189</u>	<u>-</u>
Net change in cash	89,485	35,610
Cash - beginning of period	<u>1,136,759</u>	<u>1,101,149</u>
Cash - end of period	<u><u>\$ 1,226,244</u></u>	<u><u>\$ 1,136,759</u></u>
<b>Cash reported on the balance sheet:</b>		
Cash	\$ 806,244	\$ 421,379
Restricted for debt repayment and emergency repairs	<u>420,000</u>	<u>715,380</u>
	<u><u>\$ 1,226,244</u></u>	<u><u>\$ 1,136,759</u></u>

**Solitude Improvement District  
Special Service District  
Statement of Cash Flows, Continued  
Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Reconciliation of operating income to cash flows provided by operating activities:</b>		
Net operating income	\$ 194,195	\$ 185,996
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	107,587	107,199
Changes in operating assets and liabilities:		
Accounts receivable	2,244	7,266
Prepaid expenses	209	(75)
Accounts payable	(4,875)	18,467
Total adjustments	<u>105,165</u>	<u>132,857</u>
Net cash from operating activities	<u>\$ 299,360</u>	<u>\$ 318,853</u>

**Solitude Improvement District  
Special Service District  
Notes to Financial Statements  
December 31, 2006 and 2005**

**(1) Summary of Significant Accounting Policies**

This summary of significant accounting policies of Solitude Improvement District, a Special Service District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles, and have been consistently applied in the preparation of these financial statements.

**Operations**

The District was created August 4, 1982 by Resolution No. 969 of the Salt Lake County Commission for the purpose of sewer, water and flood control, and initially, for the construction and operation of a sewer system in Big Cottonwood Canyon.

**Component Unit**

The District has considered GASB Statement No. 14 and has determined the District is not a component unit of any other governmental entity and that the District has no subordinate component units. The District operates as an enterprise Fund.

**Accounting Policies**

The District operates as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the public on a continuing basis are financed through user charges. Revenue from sewer fees is recorded based on monthly usage at stated rates. Other revenues are recorded when services are performed.



**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(1) Summary of Significant Accounting Policies, Continued**

**Accounting Policies, Continued**

The District has adopted the provisions of GASB No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Disclosures. These statements require governmental entities with more than one governmental activity to present additional accrual-based statements to better communicate the financial status of the entity. The significant changes to the District's financial statements resulting from the adoption of these statements are the Management's Discussion and Analysis and the titles and presentation of the financial statements to conform to the net asset presentation.

The District follows all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**Budgetary Policy**

Budgetary procedures for the District have been established by Utah State Statute in Title 17A – Special Districts. The District uses the same accounting method for preparing the budget as is used for financial reporting. The financial reports reflect the following budgetary standards:

- For the fiscal year beginning January 1, the District trustees prepare a proposed a budget which is presented to the Utah State Auditor on or before December 31.
- By resolution, the District trustees legally adopt a budget prior to December 31, after a public hearing has been held.
- Once adopted, the budget can be amended to any extent by subsequent trustee action. Reductions in appropriations can be approved by the trustees, but increased appropriations require a public hearing prior to amending the budget.

**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(1) Summary of Significant Accounting Policies, Continued**

**Budgetary Policy, Continued**

- Any adjustments in estimated revenue and revisions of appropriations due to operational changes in categorical program funding are integrated into the amended budget approved by the trustees.
- A final amended budget is legally approved by the trustees and the Utah State Auditor prior to the end of the fiscal year.

**Measurement Focus and Basis of Accounting**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expense is recorded when a liability is incurred, regardless of the timing of the related cash flows.

**Federal and State Income Taxes**

The District is an independent political subdivision of Salt Lake County, Utah, and is exempt from the payment of Federal and State income taxes.

**Cash Equivalents**

The District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

**Accounts Receivable**

Accounts receivable consists of various fees due from the users of its systems. Based on the payment history and the ability of the District to lien property, management believes that no allowance for possible uncollectible amounts is necessary.

**Depreciation and Amortization**

The costs of property and equipment are depreciated using the straight-line method over estimated useful lives ranging from 5 to 60 years.

**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(1) Summary of Significant Accounting Policies, Continued**

**Comprehensive Income**

Comprehensive income approximates net income for the years ended December 31, 2006 and 2005.

**Estimations and Assumptions**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(2) Deposits and Investments**

Deposits and investments for the District are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by the rules of the Utah Money Management Council ("the Council"). Following are discussions of risks related to its cash management activities.

**Custodial Credit Risk**

*Deposits.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

As of December 31, 2006, \$206,624 of the District's bank balance of \$306,624 was uninsured and uncollateralized. As of December 31, 2005, 100% of the District's bank balance of \$8,027 was insured and collateralized.

**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(2) Deposits and Investments, Continued**

**Credit Risk**

*Investments.* Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk is to comply with the Utah Money Management Act.

The District is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized basis. The income, gains, and losses, net of administrative fees, of the PTIF are allocated based upon the participant's average daily balances.

As of December 31, 2006 and 2005, the District had \$482,494 and \$403,531, respectively, invested directly with the PTIF. In addition, the District had as of December 31, 2006 and 2005 respectively, \$430,001 and \$725,381 of debt service reserve, bond sinking fund, and bond proceeds invested with the PTIF through Wells Fargo Corporate Trust, who acts as trustee for these funds. The amounts invested with the PTIF are reported at fair value. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Utah Money Management Act. The Act requires that the remaining term to maturity of the investment may not exceed the period of availability of the funds to be invested.

**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(3) Capital Assets**

Capital asset activity for the year ending December 31, 2006 is as follows:

	Balance January 1, 2006	Additions	Dispositions / Transfers	Balance December 31, 2006
Capital assets not being depreciated:				
Land and easements	\$ 35,000	\$ -	\$ -	\$ 35,000
	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>35,000</u>
Depreciable assets:				
Sewer phase I	3,011,541	-	-	3,011,541
Sewer phase II	665,200	-	-	665,200
Sewer phase III	1,794,754	-	-	1,794,754
Furniture and fixtures	9,938	4,652	-	14,590
	<u>5,481,433</u>	<u>4,652</u>	<u>-</u>	<u>5,486,085</u>
Accumulated depreciation	(1,543,297)	(107,587)	-	(1,650,885)
	<u>3,938,136</u>	<u>(102,935)</u>	<u>-</u>	<u>3,835,200</u>
	<u>\$ 3,973,136</u>	<u>\$ (102,935)</u>	<u>\$ -</u>	<u>\$ 3,870,200</u>

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**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(3) Capital Assets Continued**

Capital asset activity for the year ending December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Dispositions / Transfers	Balance December 31, 2005
Capital assets not being depreciated:				
Land and easements	\$ 35,000	\$ -	\$ -	\$ 35,000
	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>35,000</u>
Depreciable assets:				
Sewer phase I	3,011,541	-	-	3,011,541
Sewer phase II	665,200	-	-	665,200
Sewer phase III	1,794,754	-	-	1,794,754
Furniture and fixtures	9,938	-	-	9,938
	<u>5,481,433</u>	<u>-</u>	<u>-</u>	<u>5,481,433</u>
Accumulated depreciation	(1,436,098)	(107,199)	-	(1,543,297)
	<u>4,045,335</u>	<u>(107,199)</u>	<u>-</u>	<u>3,938,136</u>
	<u>\$ 4,080,335</u>	<u>\$ (107,199)</u>	<u>\$ -</u>	<u>\$ 3,973,136</u>

**(4) Accrued Liabilities**

Accrued liabilities consist of accrued wages and benefits, and professional fees.

**(5) Long-Term Debt**

A summary of long-term debt activity for the year ended December 31, 2006 is as follows:

	Balance January 1, 2006	New Debt Issued or Acquired	Principal Payments	Balance December 31, 2006	Due Within One Year
Debt payable	\$ 2,178,396	\$ -	\$ 295,380	\$ 1,883,016	\$ 295,380

**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(5) Long-Term Debt Continued**

A summary of long-term debt activity for the year ended December 31, 2005 was as follows:

	Balance	New Debt		Balance	
	January 1,	Issued or	Principal	December 31,	Due Within
	2005	Acquired	Payments	2005	One Year
Debt payable	\$ 2,473,386	\$ -	\$ 294,990	\$ 2,178,396	\$ 295,380

On July 26, 1995, the District obtained approval from the Water Pollution Control Committee (WPCC) of the State of Utah to issue \$2,649,000 in Sewer Revenue Refunding Bonds, Series 1995A and \$2,467,000 in Sewer Revenue Refunding Bonds, Series 1995B. At December 31, 1995, \$2,347,000 of the Series 1995B refunding bonds had been issued, with a final advance \$29,716 occurring April 1, 1996. The refunding bonds bear no interest and payments are due annually beginning January 1, 1996. Principal is due annually through 2016 for the Sewer Revenue Bonds, Series 1995A, and through 2018 for the Sewer Revenue Bonds, Series 1995B.

The District has issued the following notes and bonds payable as of December 31, 2006 and 2005:

Sewer Revenue					
1995A	\$ 2,993,000	None	2011	\$ 859,300	\$ 1,031,680
1995B	2,376,716	None	2013	<u>1,023,716</u>	<u>1,146,716</u>
				1,883,016	2,178,396
			Less current portion	<u>(295,380)</u>	<u>(295,380)</u>
				<u>\$ 1,587,636</u>	<u>\$ 1,883,016</u>

(Remainder of page left intentionally blank)

**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(5) Long-Term Debt Continued**

As of December 31, 2006, the maturities of the bonds payable are as follows:

Years Ending December 31,	Bonds Payable		Service Requirement
	Principal	Interest	
2007	\$ 295,380	\$ -	\$ 295,380
2008	296,380	-	296,380
2009	296,380	-	296,380
2010	293,380	-	293,380
2011	296,380	-	296,380
2012-13	405,116	-	405,116
	<u>\$ 1,883,016</u>	<u>\$ -</u>	<u>\$ 1,883,016</u>

**(6) Related Party Transactions**

**Operating Lease**

The District leases office space from Solitude Ski Resort Company (the Resort), an entity related by virtue of a Board member who has ownership in the Resort. The lease was automatically renewed for a one year period beginning January 1, 2007, for \$100 per month and can be renewed in future years unless 30 days prior to the renewal date, written notice is given by either party. Rent paid was \$1,200 for each year ended December 31, 2006 and 2005.

**Major Customer**

At December 31, 2006 the Resort comprised 27% of total operating revenues.

**(7) Operating Lease**

The District leases a vehicle under an operating lease which expired in 2006. During each of the years 2006 and 2005, the District made payments on this lease totaling \$ 3,200 and \$4,800, respectively



**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(8) Defined Benefit Pension Plan**

The District contributes to the Local Governmental Non-contributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (the System). The System provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

No employee contributions are required in System. The District was required to contribute 11.09% as of December 31, 2006 for members in the System. The contribution requirements of the System are authorized by the Board.

The District's contributions to the System for each year December 31, 2006 and 2005 were \$5,493.

The District also participates in the 401K plan of the Utah Retirement Systems, which covered all full-time employees. The District did not contribute to the plan during 2006 and 2005.

**(9) Insurance Policies**

A list of insurance policies in force at December 31, 2006 is as follows:

<u>Name of Issuer</u>	<u>Expiration Date</u>	<u>Risk Covered</u>	<u>Amount of Policy</u>
Utah Local Governments Trust	Continuous	General Liability & Property, Errors & Omissions	\$ 2,000,000
Utah Local Governments Trust	Continuous	Non-owned & Auto Liability	\$ 2,000,000
Utah Local Governments Trust	January 1, 2008	Workman's Comp	\$ 100,000
Acordia Mountain West Insurance Company	June 16, 2007	Employee Dishonesty	\$ 880,000

**Solitude Improvement District  
Special Service District  
Notes to Financial Statements, Continued  
December 31, 2006 and 2005**

**(10) Sewer Rates and Connections**

Number of sewer connections both inside and outside the tax boundaries of the District at December 31, 2006 (in Equivalent Residential Units - ERU's)	1,226.54
Number of sewer connections within the tax boundaries of the District at December 31, 2006 (in Equivalent Residential Units - ERU's)	469.17
Number of applications for sewer service on hand at December 31, 2006	-
Rates and charges imposed for sewer service per ERU, per month	\$ 35.50



However, we noted certain matters that we reported to management of the District in a separate letter dated January 22, 2007.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the County Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Schmitt, Griffith, Smith & P.C.*

January 22, 2007

**SOLITUDE IMPROVEMENT DISTRICT  
SPECIAL SERVICE DISTRICT  
Summary Schedule of Prior Audit Findings  
December 31, 2006**

**Findings – Financial Statement Audit**

No prior audit findings are required to be reported in the current year.

**INDEPENDENT AUDITORS' REPORT ON THE  
STATE OF UTAH LEGAL COMPLIANCE**

**The Governing Board  
Solitude Improvement Special Service District**

We have audited the basic financial statements of Solitude Improvement District, a Special Service District (the District), for the year ended December 31, 2006, and have issued our report thereon dated January 22, 2007. Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Special Districts  
Other General Compliance Issues

The District did not receive any major or non-major state grants during the year ended December 31, 2006.

The management of Solitude Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

This report is intended solely for the information and use of the management of the District and the various federal and state funding and audit agencies. However, this report is a matter of public record, and its distribution is not limited.

*Schmitt, Gifford, Smith & Co., P.C.*

January 22, 2007

**SOLITUDE IMPROVEMENT DISTRICT  
SPECIAL SERVICE DISTRICT  
State Compliance Schedule Audit Findings  
December 31, 2006**

**Findings – State Compliance**

There are no current year findings required to be reported.



January 22, 2007

**To the Board of Trustees of  
Solitude Improvement District, A Special Service District**

We have audited the financial statements of Solitude Improvement District, a Special Service District (the District), for the year ended December 31, 2006, and have issued our report thereon dated January 22, 2007. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated December 18, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. We are not aware of any accounting estimates that are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

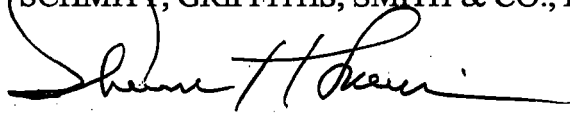
**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Audit Committee of the Board of Trustees and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

SCHMITT, GRIFFITHS, SMITH & CO., P.C.

A handwritten signature in cursive script, appearing to read "Sherman H. Smith".

Sherman H. Smith, CPA

January 22, 2007

To the Board of Trustees and Management  
of Solitude Improvement District, A Special Service District

In planning and performing our audit of the financial statements of Solitude Improvement District, a Special Service District (the District), for the year ended December 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding this matter. We previously reported on the District's internal control in our report dated January 22, 2007. This letter does not affect our report dated January 22, 2007 on the basic financial statements of the District.

January 22, 2007

**Solitude Improvement District  
Special Service District  
Management Letter  
Page 2**

**06-1 Internal Control**

*Condition:* All accounting procedures are performed by one individual. The lack of segregation of duties impedes the ability to have a proper oversight of accounting functions.

*Recommendation:* We recommend that the District review the current procedures and determine if a cost effective solution can be implemented to mitigate this risk.

Very truly,

SCHMITT, GRIFFITHS, SMITH & CO., P.C.

A handwritten signature in cursive script, appearing to read "Sherman H. Smith", written over the printed name.

Sherman H. Smith, CPA